RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Sept. 13, 1995 **LETTER 1182**

CASH: If cash and liquidity are the food that feeds a bull market, this bull market is choking on big breakfasts, big lunches and big dinners. Last week the Investment Company Institute announced that in July cash flowing into mutual funds was a massive $13.9 billion, up 70% from the $8.2 billion of June. The public, it seems, can't get enough of stocks in this rarefied area. Question: Where was the public in the early '80s when stocks were statistically cheap? Answer: On the sidelines and happy to be out of stocks.

THE PICTURE: A familiar Chinese greeting is, "May you live in interesting times." The Chinese can rest easy -- it's happening -- the times are very interesting. Sentiment on Wall Street runs from optimistic to euphoric, stock volume is huge, enormous corporate mergers are rampant, stocks spurt on good news or swoon on bad news. Meanwhile, the football season is on and the fair city of Atlanta prepares for the Olympics. And, oh yeah, a pack of presidential hopefuls prepare for the Big Show.

With it all, my Primary Trend Index (PTI) continues to push to new all-time highs. Accompanying the new PTI highs we have -- uh, unconfirmed new highs in the D-J Transportation Average.

It's important to realize (see the page 1 chart) that there's been a "discrepancy" in the D-J Averages. In this business we call a discrepancy a non-confirmation. Here's what happened: the D-J Industrial Average struck a closing all-time high of **4736.29** on July 17. From there the Industrials declined while the D-J Transports continued to advance. On September 1 the Transports hit an all-time high of 1912.49, after which they continued higher.

The Dow Theory question -- will the Industrials confirm? To confirm, the Industrials have to rally above their July 17 closing high of **4736.29.** Not a tall order, but as this is written the Industrials have **not** yet bettered that high. They have to -- if the "all clear" signal is to be given.

From here on it will be particularly important to watch the progress of my **Primary Trend Index (PTI).** The PTI has been leading the market higher ever since last December and as this is written the PTI is at a new high. As long as the PTI continues to advance to new highs, the pressure will be to the upside for the stock market.

To sum up, what observations can we make about the market at this time? (1) We can say that the market has had a dramatic advance from last December's lows. (2) We can say that the rise from the December lows has, so far, been *uncorrected.* (3) We can say that the market has progressed from an overvalued condition to an *extremely* overvalued condition. (4) We can say that after seven months of advances, the market is now showing a slight tendency (at least on the part of Industrials) to stall. (5) We can say that enormous amounts of public money continue to pour into the market (mostly via mutual funds). (6) Finally, we can say that my Primary Trend Index is still recording new highs, as is the advance-decline ratio (see page 2 chart).

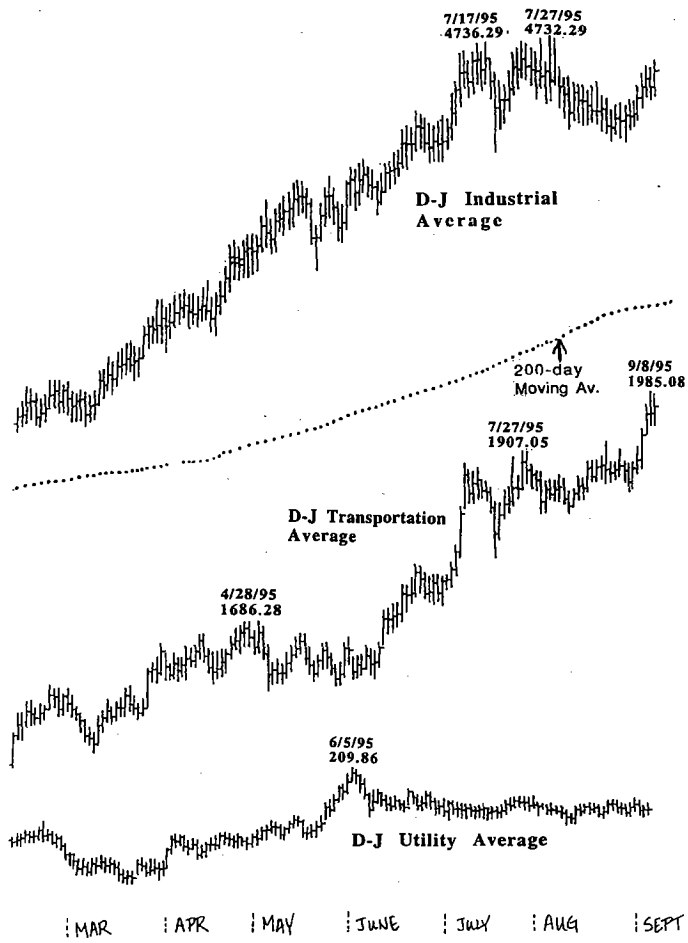
TWO APPROACHES: The following is something I've wanted to write about for a long time. From a technical standpoint, there are two broad approaches to the market. One is the **projection** approach. This entails using any number of techniques by which the user seeks to *project or predict* what the market might do. Here we have the Elliott Wave method, Kondratieff, cycles, etc. I also include in the projection approach the many devices which seek to show the condition of the market such as odd-lots, short interest, put/calls, margin levels, etc. These latter methods seek to reveal when the market is strong or weak, and therefore whether the future calls for advance or decline.

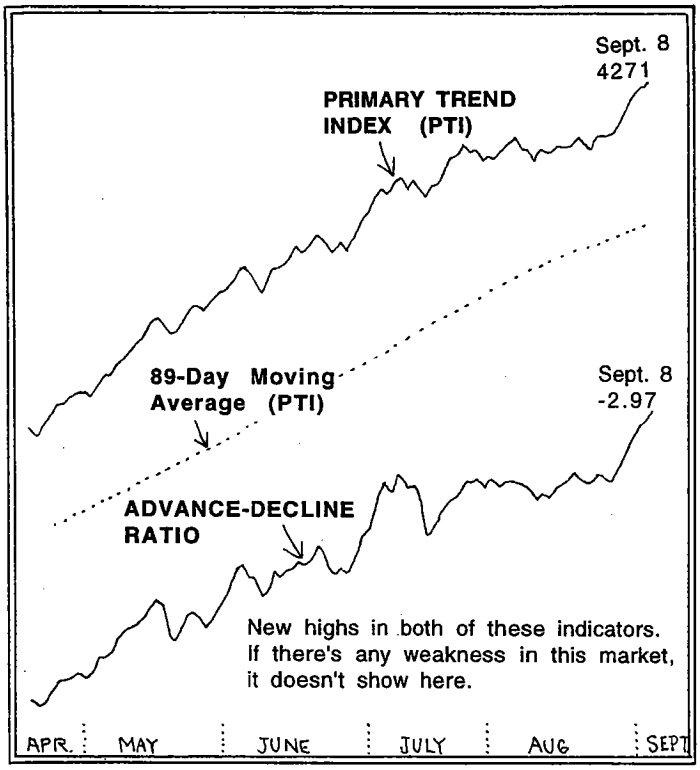
Sept. 1 DJIA 4647.54; PTI 4255; A-D Ratio -3.59
Sept. 8 DJIA 4700.72; PTI 4271; A-D Ratio -2.97
Dow Yield: 2.44%; Dow Price/Earnings: 14.6
Dow 200-day MA: 4226; Dow 30-day MA: 4650
Dow Times Book Value: 3.60; PTI 89-day MA: 4181
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 384.12; Gold-PTI: 726

The other technical approach is what I call the **directional** approach. This deals with price action, or what the market is actually doing and where it *actually is now.* When you know where the market is, you then determine the direction of the trend. You then accept the position that the *trend will continue until proved otherwise.*

But alas, there is no perfection in any method of analyzing the market. For instance, my Primary Trend Index (PTI) represents my idea of an excellent technical method of defining the underlying direction of the market.

To bring us up to date, the PTI gave a bull signal last February 2 when it rallied above its 89-day moving average. But there's a problem. The problem is that even though the PTI is bullish, many





stocks have, and will, drop by the wayside before the PTI can render a definitive bear signal. In other words, a lot of deterioration can take place prior to a PTI bear signal. Obviously, the reason for this is that not all stocks go up together and not all stocks go down together.

So one way of looking at the situation is to say that the projection method (which I described in the first paragraph) seeks to "jump the gun" on the directional method. In other words, the projection method says, "Sure the direction of the stock market is up, but the internal condition of the market is deteriorating, stocks are overvalued, insiders are selling, call option volume is outpacing put option volume, etc. And even though the market is rising, it is ready to top out. Therefore, I don't trust the bull trend."

Personally, I try to combine both methods. But the art in analyzing is in determining how much of each method to believe. My PTI has been extremely useful during 1994-95. But supposing the market (with the PTI still in its bullish mode) was suddenly to crash 500 points? The PTI would not have signaled the trouble. Only overvaluation and a knowledge of history would have directed our attention to the potential danger.

Danger? Let me give you an example of what could happen in the period ahead and why there is danger in the current situation. Peter Eliades *(Stockmaket Cycles,* PO Box 6873, Santa Rosa, CA 95406) does a good deal of excellent and original research. In his latest report Peter takes note of the current extraordinary market advance, an advance that started on October 11, 1990. This advance is unique in that it is the LONGEST (in duration) advance without a 12% correction in stock market history.

Peter lists the previous longest market advances without a 12% correction. Here they are: the advance that ended on March 10, 1937 lasted **958** days. The advance that ended on May 29, 1946 lasted **1492** days. The advance that ended on February 9, 1966 lasted **1325** days. The advance that ended on August 25, 1987 lasted **1126** days.

Now, let's assume that July 17, 1995 (Dow high) was the final day of the advance which started on October 11, 1990. This uncorrected advance has lasted **1743** days. This makes it the longest *uncorrected* (by at least a 12% decline) advance in stock market history.

Next, let's see what happened when previous extended, uncorrected advances topped out. The '37 advance was followed by a 50.2% decline in the Dow. The '46 advance was followed by a 24.8% decline. The '66 advance was followed by a 26.5% decline (but much worse later in '73-'74). The '87 advance was followed by a 41.2% decline.

What does this tell us about the current situation, in view of the fact that the 1990 to 1995 advance has lasted 1743 days? It tells us that the probabilities are that there will be a major decline following the top (assuming that July 17 of this year was the top).

Further interpretation -- because of the extreme overvaluation, because of the massive amount of money that has come into the mutual funds, and because of the intense "new era" or "mania" type of buying (particularly in the technology sector), I would think we could expect a primary bear market to follow the 1990-95 advance.

Again, turning to the directional approach, so far my PTI is still in its bullish mode. It is conceivable that the market could crash while the PTI was still above its 89-day moving average (thus still in its bullish mode). So at this point it is difficult to put all of one's faith in the fact that the PTI is still heading higher.

Let me put it another way. For the optimists it's a definite plus that the PTI remains bullish. But in view of the many other factors, we must bear in mind that a lot could happen (such as a crash) before the PTI was able to break below its 89-day moving average, thereby rendering a bear signal.

Conclusion: Although there is no perfect method for "beating the market," the directional method is a huge help, particularly when the directional method is tempered with other considerations such as valuations, condition of the market, etc. At present, the PTI continues to hold bullishly ABOVE its 89-day moving average. That's the operative fact at this time.

INVESTMENT POSITION: With my Primary Trend Index probing new highs and in the absence of evidence to indicate that the great bull market is over, the bull stays in the box. However, veteran subscribers are well aware that I feel that the current situation is very dicey and that the bull is standing on very thin ice. Listen, you can admire a beautiful woman, but that doesn't mean that you have to marry her. I apply the very same thinking to this high-priced market.

Along with the mutual fund mania and the technology stock mania, we now have the merger mania, as this clip from London's *Financial Times* tells us. Mania markets tend to be dangerous markets, and I doubt that today's stock market is an exception.

Of the 30 D-J Industrial stocks, not one currently yields as much as 5%. Here are the top yielders, and as you know, many investors employ a program that dictates that each year they adjust their portfolio so that they hold the five (or 10) highest-yielding Dow Industrials. The top yielders now are Texaco at 4.97%; Philip Morris -- 4.52%; Exxon -- 4.31%; JP Morgan -- 4.19%; Chevron -- 4.18%; Minn. Mining and Mfg. -- 3.40%; DuPont -- 3.22%; GE -- 2.80%; Sears -- 2.74%; Merck -- 2.72%.

FINANCIAL TIMES

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Saturday September 2 1995

Merger mania in the US

So much for the idea that business shuts down when the world goes on holiday. In the past month, US companies have been seized by an urge to merge on a scale with few

zontal expansion, but vertical integration, marrying programme providers with distribution networks. That is most clearly true of the Disney/ABC deal, which is widely

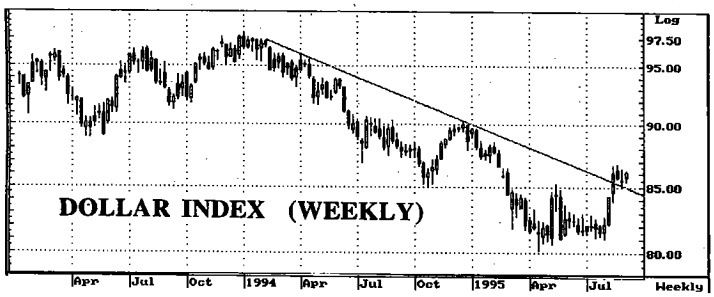
The dollar is strong, stocks are strong, bonds are strong, the metals are asleep, and we watch for an all-important confirmation (or lack thereof) on the part of the D-J Industrial Average.

Investment Quality Trends' percentage of undervalued blue chips is at a record low 5%. In other words, only one out of every 20 blue-chip stocks that they follow is now in the undervalued category. That's never happened before, even at other major market tops. The situation is tenuous.

Hint: Watch the daily new 52-week lows on the NYSE. If or when new lows expand beyond **27**, this will be a sign of rising selling pressure and increasing danger.

DOLLAR: "Currency, currency, on the wall -- who's the strongest currency of all?" Well, for the time being, damned if it isn't the dollar! There's no question about it, the dollar has turned around. Yes, there have been massive central bank interventions in favor of the dollar and against the yen. And yes, intervention is a manipulation. But interventions only work effectively when they are in harmony with the underlying trend (at least the secondary trend) of a currency.

At any rate, the Dollar Index has now reversed a 15-month downtrend that began in January 1994. This chart shows the Dollar Index pushing well above the declining trendline into the 86 area.



Obviously, nobody wanted a major bank meltdown in Japan, and I believe both the American and Japanese central banks thought that a Japanese meltdown was a distinct possibility. At least five central banks bought dollars and sold yen, which obviously helped to turn the tide.

How far can the dollar climb? The major resistance comes in at 90 on the Dollar Index. An upside breakout above the last little congestion area could point the dollar towards the 90 area. In case you weren't aware of it, the stronger dollar will hurt US exports and help Japanese exports.

LONG, LONG TERM: Every few years I include a very long-term chart of the D-J Industrials and Transports. This one (courtesy of *Ned Davis Research, Inc.*) traces the two Averages (logarithmic scale) back to the late-1920s.

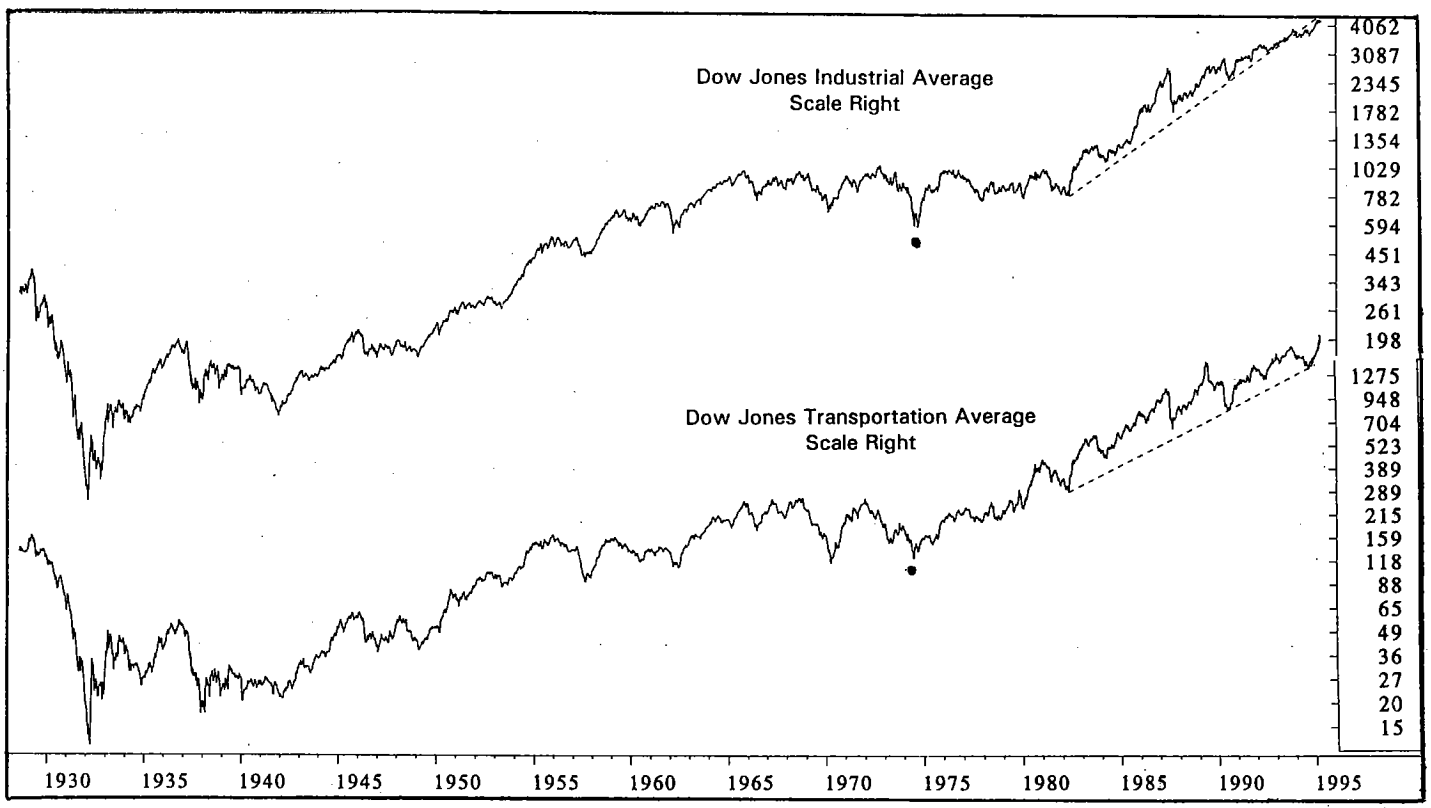
The main thing I wanted to show here was perspective, what the markets of the last 65 years look like. Here we see the crash of '29, the bull market of 1932 to 1937. Then the very confusing bear market action from '37 to '42. From 1942 to 1946 we saw a bull market that was outstanding for its massive rise in breadth.

After '46 we experienced a bear market with a series of (again) confusing moves down to the famous 1949 Dow low of 161.60. From there a great bull market took the Dow up to 995 in 1966. Following '66 we saw an extended and puzzling series of up-and-down moves to 1973 -- then a disastrous two year decline to a final Dow 1974 low of 577.60. The year 1974 produced what was fated to be an historic low.

One of the points of my presenting this chart is to show that the move from 1974 to the present was all part of one huge, continuing bull market. I have placed a dot at the 1974 lows, and to my mind there's no question but that '74 to '95 is one continuous primary rise. The advance from 1980-82 and the succeeding advance from 1994 to the present are all part of the same bull market.

Based on the duration and the extent of the rise plus the current extreme overvaluation, I would have to think that the great bull market that started in at the 1974 lows is at, or very near, its end.

What force or series of events could cause the next bear market? It's really fruitless for me to speculate on this. But this is the operative concept to keep in mind -- once the stock market discounts the BEST that can be seen ahead, there's no where to go but down.



Once the primary trend of the market turns bearish, then *whatever is required* to push price down -- will materialize. It may be a depression, it may be a war, it may be a monetary collapse, it may be any of a hundred different possibilities. But just as the bull market of 1974 to 1995 produced whatever was needed to advance the Dow from 577 in 1974 to well over 4600 today, in the same way, the next bear market will produce whatever is needed to fully correct the excesses of the last 21 years.

NOTES & QUOTES: Satellites, TV, FAX, CDs, software, the Internet, electronic communications, and the power of MONEY -- they're changing the world. One by one every nation on the face of the globe is getting into the international financial act. Now say "Hello" to Mongolia. On August 28 the opening bell sounded for the new Mongolian stock exchange. The Mongolian state privatized 451 state enterprises which became stockholding companies, and 1.2 million Mongolian citizens were issued vouchers which are exchangeable into stock. The first day had bids for 43 stocks. The exchange enjoyed a first-day turnover of 12,776 shares worth $4,850. Listen, it was a start. Among the higher-volume issues traded were Ulan Bator Hotel, the Makhimpex Meat company and Erdenet Carpet factory. Oh yes, the exchange is open to foreigners.

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From its 1989-90 peak to its '94 low, New York City commercial real estate dropped 20% to 50% in value. Many think it has bottomed and is now on its way up. The Walt Disney Co. must think so, because they are now major players in NY real estate. Disney's holdings range from dozens of studios used by its new subsidiary, Cap Cities/ABC, to a hotel and theaters on 42nd St. They are negotiating for Radio City Music Hall, currently owned by a bankrupt Rockefeller Center. Is CEO Eisner in the process of making NYC another Disney theme park? We'll find out, won't we.

* *

Fastest growing area of finance -- **derivatives.** In 1994 the US futures industry (just the US alone) traded 426 million futures contracts, 25.7% more than in 1993. And that doesn't include tens of millions in option contracts! Add currency trading to this and you're talking about the absolute biggest business in the world (currency trading runs around $1.2 trillion a DAY). To me, it's obvious that the whole area of currencies will constitute the BIG market of the future. Fortunes will be made and lost in trading the currencies, banks and corporations will live and die through their expertise in trading the currencies. As I see it, what we're seeing now is just the beginning.

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By the way, the Chicago Mercantile Exchange offers a very basic, but quite informative, video tape entitled, **"The Currency Opportunity."** The video takes about 20 minutes to see, and it's well worth sending for. The video gives you some idea of the vastness of the currency markets and it also answers question about what makes currencies move. The video also fits in with the new business that I've started. But hey, the tape is free, sent to you through the kindness and courtesy of the CME -- call (800)273-8383 and ask for "The Currency Opportunity" video.

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Take a good look at your TV set. Chances are that within five years it will be an antique. We may not get a flat tax, but we will get flat TV sets. These will be TV sets that you'll hang on your wall the way you now hang a picture. Flat TV screens are something that have been promised for years, and they are about to happen. Fujitsu Ltd. announced that it will spend $210 million this year to build a production line of 42-inch FLAT color TV screens. It will spend an additional $420 million in 1998, and by the year 2000 it will be turning out 100,000 flat screens a month. The so-called plasma display panels are a mere three inches thick. They won't be cheap. Mass production starts in the fall of '96, and screens will sell for around $5,200. Matsushita, NEC and Sony have also announced that they will be producing flat screens.

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Pat Buchanan appearing in the very liberal *NY Times?* Yep, the *Times* published a column by Pat dealing with NAFTA. Here's an interesting excerpt: *"One year after NAFTA, Mexico devalues the peso, wiping out billions in US investments. Our trade surplus has vanished. A $17 billion deficit is expected in '95. Translation: 340,000 lost American jobs. Our winter tomato industry is in ruins. Illegal immigration is rising. Mexico has become the port of entry for America's cocaine. And, oh yes, Mr. Salinas was asked to leave the country, and is now under investigation for the cover-up of an assassination, while Mr. Clinton and the NAFTA Republicans push for $50 billion in loans to Mexico City. Newly installed President Zedillo said he needs the cash to pay off bonds held by Citibank and Goldman Sachs, lest the New World order come crashing down . . . We shall never see the money again; our grandchildren will pay it off. Comes now a report from the monetary fund that we've been had. The Mexican crisis was overblown. Mexicans themselves had panicked and pulled down the peso. The world financial system was never in danger. . . NAFTA should be canceled. A contract negotiated in deceit is no contract at all."* **Russell comment:** You may not like Buchanan but hey, I read it in the *New York Times.* Mmm, check these figures: January through June, US exports to Mexico dropped 11.9%, while Mexican exports to the US soared 29% (according to the latest Commerce Dept. figures). NAFTA, anyone?

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Politics: according to a terrific article in the Sept. 3 *NY Times* (Sunday magazine), "People close to Colin Powell say he wants to be President. If he runs, it will most likely be as an independent. He's confident, they say, of reaching the 19% Perot threshold, but is not sure how much beyond that he could get." **Russell comment:** Powell is coming out with his new book, "My American Journey," after which I think he'll then "feel out" his chances of becoming President. According to the book, Powell turned down a chance to become CIA director, a job Bush offered him in 1989. Even more interesting, Bill Clinton asked Powell to be his running mate, but finally settled on Al Gore.

For Clinton to win the election, it is crucial for him to take California with its huge total of electoral votes. Note: Clinton has made 19 visits to California. Late flash -- in a Field Poll taken last week, Clinton leads Bob Dole in California. My opinion -- if the GOP wants a president, they should not run dullard Dole.

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Cutting back Medicare has been political dynamite. What's the problem with Medicare? Here it is -- in 1970 Medicare cost the government $6.8 billion or 3% of federal spending. In 1994 it cost $160 billion or 11% of federal spending. By 2005 it could cost $458 billion or 17% of federal spending (lastest estimate by Congressional Budget Office). In 1970 20 million Americans received Medicare. Now 38 million Americans do. Do you see the problem?

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From a review of the new book, "A Year With Microsoft on the Multimedia Frontier," by Fred Moody (review by Steve Lohr): "In the field of multimedia software, Microsoft has been forced to open its doors to people with skills outside computer programming -- writers, editors and artists who bring a different sensibility and culture to Microsoft. The newcomers are 'designers,' while the programmers are 'developers.' As one senior Microsoft manager explains: 'Designers are invariably female, are talkative, live in lofts, have vegetarian diets and wear found objects in their ears. Developers are invariably male, eat fast food and don't talk except to say, 'not true'."

* *

With competition from FAX, E-mail, Federal Express and other private carriers, I've wondered how the US mail can survive. The trend in the rest of the world is to mechanization and privatization. New Zealand, for instance, turned its PO into a government-owned corporation while deregulating many of its old functions. In its first year the NZ PO produced a $72 million *profit.* Even more astounding, NZ will cut the cost of mailing a letter. Germany plans to privatize its mail service in '97. Argentina will complete privatization this year. Meanwhile, the US' 700,000 high-priced PO employees wonder what the future has in store for them. I can answer that -- vicious competition.

* *

Statistics: maybe the most shocking statistics of the year is that 5.1 million Americans are now in prison or on probation or on parole.

This represents an incredible 2.7% of the entire US population. Since 1980 state and federal prison populations have increased by 213% and probation rolls have jumped by 165%. Much of this is due to drug arrests and long drug sentences. **Russell comment:** This is a testament to the failure of the federal and state anti-drug programs. As long as there's a huge demand for drugs, there'll be suppliers. The Saudi Arabian solution -- drug traffickers are beheaded. The Singapore solution -- hanging. The US solution -- no solution; however, we have produced two giant industries, the drug industry and the anti-drug industry. The billion dollar question -- why do so many Americans use drugs?

* *

Fitting in with the above is the question, "What kind of dog would you buy?" The current trend is to large, guard dog types. The big percentage increases (Amer. Kennel statistics for '94 over '93) in the more popular breeds are as follows: Rottweilers up 70%; German Shepherds up 32.6%; Boxers up 29%; St. Bernards up 47.2%; Mastiffs up 43.2%; Bull Mastiffs (these are great dogs) up 60.5%; Amer. Staffordshire Terrier (better known as pit bulls) up a whopping 99.6%.

* *

Enthusiasm is waning for the "Republican revolution." People don't feel that anything the Republicans have done so far has or will make any difference in their lives. As far as cuts are concerned, Amtrak subsidies and airport grants get a reprieve. Republicans offered brave talk about abolishing the Energy, Education, Labor and Commerce Departments. But you know what -- they're all still here. Republicans have revived the super-expensive B-2 program, although experts state the plane is not needed in the post-cold war world. **Russell opinion:** The one thing that would actually affect the lives of the average American immediately is a complete change in the income tax system. We'll see if anything happens here, but the idea is so impelling that even "Mr. Waffly," Prez Clinton, is looking into the tax situation, hoping that maybe he can somehow use it to get reelected. Serious question: can you think of one major item that Clinton hasn't reversed himself on?

* *

The Aug. 17 issue of *Variety* included a special on Steve Cannell, the man who has produced a huge number of TV successes such as Renegade, The Commish, Silk Stalkings, Hunter, The A-Team, 21 Jump Street, Cobra, on and on. Here's what Cannell has to say about the industry: "What is eventually going to happen in the entertainment industry is there are going to be *seven, maybe eight major conglomerates* that control the industry. They are going to be highly financed, deep-pocketed companies able to play this game on a much different level than I've been playing it."

The following from the August 31 *London Financial Times:* "It is a measure of the mood in the US entertainment business that a $5 million cash payment for a minority stake in a little-known TV station company specializing in tacky home shopping should make front page news." **Russell comment:** Of course, the *Times* is talking about Barry Diller's deal to take over effective control of Silver King Communications. The fact is that the whole entertainment industry has been in a state of hysteria, what with Disney buying Cap Cities, Seagram buying MCA and now CBS being coveted by Westinghouse and also by Jane Fonda's husband, Ted Turner. But why all the headlines? Well, today the public is not only thrilled about whether a given film is worth watching, they're also wildly curious about how much a given film costs and how much they paid Demi Moore to act in it. To put it succinctly, the public is totally fascinated with Hollywood, super-models and anything that smacks of GLAMOUR and MONEY.

* *

California -- with all its troubles and high state taxes, you've got to love it to live here. I don't play golf, but I note that San Diego now bills itself as the undisputed "Golf Capital of the World." 30 San Diego companies and 65 golf courses now generate $1.5 billion in golf-related income for the San Diego area . . . Trivia: What are the only genuinely international sports? Answer -- Golf and tennis. Question: What's the only major sport that does not have a defined playing field? Answer: Golf, since every course is different. And while I'm on sports, why are baseball managers the only managers who dress the same way as their players? Answer: In the old days if a baseball player was hurt, the manager would step in and take over his position. Thus, a baseball manager was always dressed for action.

* *

Do wealthy financiers make money by mistake? I never met one who did. In a new book about Warren Buffett ("Buffett, the making of an American Capitalist"), author Lowenstein writes about Buffett's obsession with money: "Even when Buffett dieted, he inserted money into the equation. He would write a check for $10,000 to his daughter, payable on such and such a date *unless his weight had dropped.* Little Susie would try to ply Buffett with ice cream or drag him to McDonald's -- but it was useless. Her daddy didn't want the ice cream as much as he wanted to keep the money". . . Again, Buffett was at an airport with Katherine Graham, owner of the Washington Post. Mrs. Graham wanted to make a phone call and asked Buffett if he had a dime (a phone call was a dime in those days). Buffett said he only had a quarter and wandered off to find change. Said Graham, "Warren, give me the quarter." All of which explains why Warren Buffett has $12 billion and you don't.

* *

Seeds of discontent: In a terrific article, Lester Thurow (Professor, MIT) states, "No country without a revolution or a military defeat and subsequent occupation has ever experienced such a sharp shift in the distribution of its earnings as America in the last generation. At no other time have median wages fallen for more than two decades. Never before have a majority of American workers suffered real wage reductions while per capita domestic product was advancing. The median real wage for full-time male workers has fallen from $34,048 in 1973 to $30,407 in 1993 . . . Investing in a college education doesn't get one off the down escalator and onto an up escalator -- it merely slows one's descent . . . The traditional family is being destroyed not by misguided social welfare programs from Washington (although there are some Government initiatives that have undermined family structure) but by a modern system that is not congruent with 'family values.' Besides falling wages, America's other problems pale into insignificance. The remedies lie in major public and private investment in research and development and in creating skilled workers to insure that tomorrow's high-wage brain-power industries generate much of their employment in the US. Yet, if one looks at the weak policy proposals of both the Democrats and Republicans, 'it is a tale told by an idiot, full of sound and fury, signifying nothing.'"

Russell comment: I agree with Thurow that America's declining real wages constitute a huge problem. I don't agree with Thurow on the solution. There are world trends, and one is that the rest of the world is becoming educated, smart, creative and efficient. It also features low wages. America is splitting into two groups, the small highly educated world of sophisticated finance, computerization, and high-tech -- and ALL the rest. All the rest are competing with all the rest of Asia, India and the lower-wage populations of Europe. Furthermore, all the rest are being killed by corporate down-sizing in the US. Computers are making a huge percentage of US workers expendable. Corporate earnings and the stock market may be going up, but the earnings of America's wage earners is going down (say hello to the two-wage earning family) and kids never see their parents. Says Labor Secretary Robert Reich, "Americans are working harder. More people are moonlighting. In May, 1995, nearly 8 million people were holding two or more jobs, 636,000 more than one year ago. That's the highest portion of Americans holding two jobs since data was first collected 25 years ago . . . The income gap has continued to widen between top earners and everyone else. Almost all growth in family incomes during the past 15 years has gone to the top 20%, while the typical American family is living on less than it did 15 years ago, accounting for inflation." Russell comment: These are the seeds for the next primary bear market.

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Speaking of CHANGE, mull over these astounding figures for major US cities (statistics as per 1992): Washington, D.C. -- 65.8% black population plus 5.4% Hispanic. LA -- 14.1% black plus 39.8% Hispanic. Miami -- 27.7% black and 62.9% Hispanic. Detroit -- 76.1% black and 20.8% Hispanic. Philadelphia --

40.2% black and 5.6% Hispanic. Dallas -- 29.7% black and 20.8% Hispanic. Baltimore -- 59.4% black and 1.3% Hispanic. NYC -- 28.5% black and 24.7% Hispanic. Meanwhile, over one million people are immigrating to the US every year (only 20% of these are white) while it is estimated that another 300,000 a year are coming in as illegals. The cost of all this is literally breaking Medicare and the budgets of many states. The US, literally, no longer has any borders.

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According to the World Bank, 80 nations are currently suffering severe water shortages that pose major health risks to their populations. These include Mexico, Northern China, Southern India, Pakistan, most of North Africa, South America and the Middle East. In 40% of the world over two billion people have no access to clean water. Currently, 80% of all deaths from disease in the developing world are due to water born diseases . . . In the words of Ismael Serageldin, Vice-president of the World Bank, "The wars of the next century will be over water." (Above courtesy of the *Browning Newsletter,* PO Box 494, Burlington, VT 05402.)

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Texas: If you're not a felon and you're sane, you can (after passing the course) now get a concealed weapons license in the great sovereign state of Texas. Texas is one of 14 states that allow liberal carrying permits for citizens. The first day of the new law 35,000 Texans applied for the permit. **Russell comment:** I'm all for it (California, get with it). Why should a crazy be able to pull out a pistol in a restaurant and calmly shoot 10 cowering people and then walk out untouched? Why should a hood corner and rape a woman on a dark street knowing full well that she's unarmed and helpless? The criminals have the guns, the citizens have only their prayers. The best thing about concealed-carry is that the criminal never knows who's armed and who isn't. The felon will obviously continue his life of crime, but he'll target property rather than human life. The police are great, but they're not there when you need them.

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If there's to be a coming economic meltdown, it could easily come from unfunded debt or unfunded obligations taken on not only by the US but by many other nations as well. This clip from last week's London *Financial Times* hints of what's ahead. In the US, Medicare, Medicaid, Social Security, overly generous federal pension funds, all will hit the "Big Squeeze" ahead as programs that were never properly financed run into the brick wall of reality.

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In view of the statistics on smoking and disease, the following is rather amazing (1992 statistics): in Japan, 60% of the men smoke (13% of women); in France, 49% of men smoke (33% of women); Germany, 42% of men smoke (27% of women); USA, 28% of men smoke (25% of women). In California smoking seems to be at a minimum. When I go to NYC I'm always surprised at how many people smoke. Another surprise -- a very low percentage of black teens (only 5%) smoke. My guess; they consider smoking "a white thing," and most want no part of it.

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I guess this is a good time to quote Supreme Court Justice Louis Brandeis: *"The right most valued by all civilized men . . . is the right to be left alone."* Russell comment: "Amen."

World tax may soar, warns OECD

By Gillian Tett, Economics Correspondent

Future generations of Italians may need to pay five times more tax than the current generation to keep the pension system running, the Organisation for Economic Co-operation and Development warned yesterday.

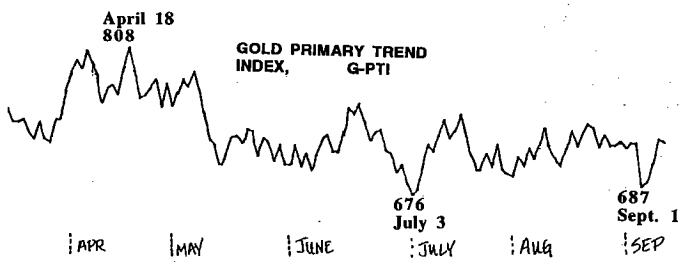
Meanwhile, future populations in countries like the US and Norway may need to pay 100 per cent and 50 per cent more net taxes respectively to meet these demands, the OECD adds.

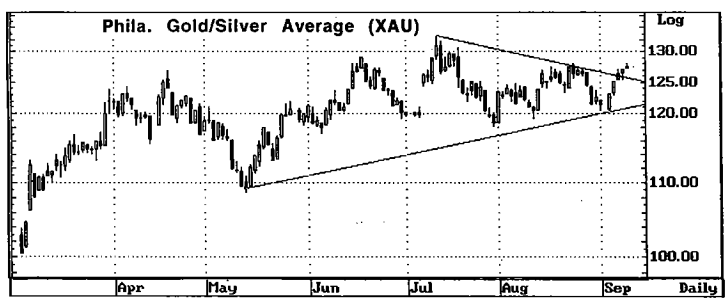
GOLD: If there's anything bullish happening in the world of gold, it's taking place in the precious metal shares (not the metal). This daily chart of the Phila. Gold/Silver Average (XAU) shows a large triangular pattern with a recent but rather weak breakout. The real upside breakout would come if XAU can rally above its July peak of 131. In the past, a rise in the gold shares has frequently preceded a rise in the price of gold. But the two are obviously interdependent. For a valid gold advance, the metal and the stocks have to confirm each other.

Meanwhile, my Gold-PTI continues to be locked in a trading range. No sense guessing which way the ultimate breakout will come. The market will tell us. As for stocks, the Toronto royalty twins, Franco Nevada and Euro Nevada continue to be the superstars of gold. If you like gold these are the two you must be in. Add Barrick and Placer Dome along with Agnico-Eagle and you're fully armed to reap the benefits of any worthwhile gold move.

Demand for physical gold (hoarding plus fabrication) hit an all-time record in the first half of 1995 (everybody's buying gold jewelry). But supply/demand is not what moves gold, psychology moves gold. People buy gold when they fear inflation, when they fear that their paper money is moving towards oblivion or when they fear that their government is coming apart. Or sometimes (for instance now) they buy gold when they feel (intuit) that the metal is just darn cheap.

Interestingly, most of the world appears to be slowing down economically. Interest rates across the globe are declining as central banks seek to battle the forces of recession. Last week Japan lowered its discount rate to a micro 0.62%. The Land of the Rising Sun is obviously attempting to fight a sinking economy and a potential bank meltdown.





LATE NOTES: The market-hype continues. Buy mutual funds and die rich, buy technology stocks and die happy, new era, new world, new investment opportunities -- it's a rosy litany of bullishness that has veteran market-watchers shaking their heads.

With it all, the market appears to be at an important juncture. The Transports hit their bull market high last week (Sept. 7) at **1976.74.** But it's been *almost two months* since the D-J Industrial Average recorded its own bull market high of **4736.29** (the Dow high was struck back on July 17 -- has anyone noticed?). Thus an important NON-CONFIRMATION still exists. But let's give the bull trend (which was the *last confirmed trend*) the full benefit of the doubt. As matters stand, all the Dow has to do is rally above its July peak of 4736.29 and the air will be cleared. That shouldn't be that difficult, er, uh, should it?

NEXT MAILING: Sept. 27, 1995